

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2421 - SB 2460

February 22, 2018

SUMMARY OF BILL: Reduces the annual occupational privilege tax, for any tax year beginning on or after July 1, 2018, from \$400 to \$200 for any licensee whose license is on active status and to \$100 for any licensee whose license is on inactive status.

Establishes that a person, who is licensed or registered for two or more professions subject to the occupational privilege tax is only liable for an occupation privilege tax in the amount of \$200.

Establishes that a person, who is licensed or registered for two or more professions subject to the occupational privilege tax, for which one license is on active status and one license is on inactive status, is only liable for an occupational privilege tax in the amount of \$100.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$45,285,700

Increase Local Revenue – \$227,200

Assumptions:

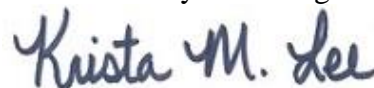
- Pursuant to Tenn. Code Ann. § 67-4-1703(a), the occupational privilege tax is a \$400 tax on persons engaging in certain occupations in Tennessee, as specified in Tenn. Code Ann. § 67-4-1702, due and payable on June 1 of each year. The first year impacted by this legislation will be FY18-19.
- This legislation reduces such tax by \$200 (\$400 - \$200) for any licensee whose license is on active status.
- Pursuant to Tenn. Code Ann. § 67-4-1708(a), the occupational privilege tax does not apply to a person registered or licensed, if the person is inactive or retired pursuant to the regulations of the appropriate licensing board. The proposed legislation does not repeal this provision. For the purposes of this fiscal analysis, it is assumed that licensees whose license is inactive will remain exempt from the occupational privilege tax.
- According to the DOR, there is no record indicating the number of taxpayers that hold an active license and an inactive license for two separate professions. As a result, there are estimated to be no significant number of such persons, and therefore, no significant impact related to such individuals.

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- According to the DOR, there are approximately 229,212 persons which pay the occupational privilege tax.
- The recurring decrease in state revenue is estimated to be \$45,842,400 ($229,212 \times \200).
- The Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (*The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly*) reports that 64 percent of occupational privilege taxpayers reside out of Tennessee, while 36 percent reside in the state.
- Approximately 82,516 ($229,212 \times 36\%$) of such taxpayers are estimated to reside in Tennessee.
- It is assumed that 50 percent of tax savings realized by in-state residents will be spent in the economy on sales taxable goods and services. The recurring tax savings that will be spent in the economy on sales taxable goods and services are estimated to be \$8,251,600 ($82,516 \times \$200 \times 50\%$).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue is estimated to be \$556,720 [$(\$8,251,600 \times 7.0\%) - (\$8,251,600 \times 7.0\% \times 3.617\%)$].
- The total recurring increase in local sales tax revenue is estimated to be \$227,182 [$(\$8,251,600 \times 2.5\%) + (\$8,251,600 \times 7.0\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$45,285,680 ($\$45,842,400 - \$556,720$).
- Any increase in expenditures to DOR to establish the rebate program is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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